



**Financial Statements and Single Audit Reports
As of and for the years ended December 31, 2006 and 2005**

(Together with Independent Auditors' Report)



COMMUNITY HEALTH CENTERS, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Governors Community Health Centers, Inc.

We have audited the accompanying statements of financial position of **Community Health Centers, Inc. (CHC)** as of December 31, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of CHC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Community Health Centers, Inc.** as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 30, 2007 on our consideration of **Community Health Centers, Inc.'s** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of **Community Health Centers, Inc.** taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Tanner LC

April 30, 2007



COMMUNITY HEALTH CENTERS, INC.
Statements of Financial Position

December 31,

	2006	2005
Assets		
Cash	\$ 478,407	\$ -
Cash and cash equivalents—designated	334,947	2,386,693
Receivables, net	1,223,397	1,539,201
Prepays	4,628	21,625
Property and equipment, net	839,257	998,889
Total assets	\$ 2,880,636	\$ 4,946,408
Liabilities and Net Assets		
Liabilities:		
Checks written in excess of cash in bank	\$ -	\$ 33,626
Line-of-credit	-	495,000
Accounts payable	457,748	653,610
Accrued liabilities	292,784	195,993
Total liabilities	750,532	1,378,229
Commitments and contingencies		
Net assets—unrestricted:		
Designated	334,947	2,386,693
Undesignated	1,795,157	1,181,486
Total net assets	2,130,104	3,568,179
Total liabilities and net assets	\$ 2,880,636	\$ 4,946,408



COMMUNITY HEALTH CENTERS, INC.
Statements of Activities

Years Ended December 31,

	<u>2006</u>	<u>2005</u>
Unrestricted net assets:		
Support and revenue:		
Grants and contracts	\$ 5,543,664	\$ 6,011,989
Patient revenue, net of adjustments of \$7,886,439 and \$7,014,170	5,829,250	5,344,445
Contributions	4,560,830	5,687,303
Interest and other	113,826	52,239
	<hr/>	<hr/>
Total unrestricted support and revenue	16,047,570	17,095,976
	<hr/>	<hr/>
Expenses:		
Program services:		
Community health services	11,199,376	10,621,325
Farmworker health services	351,810	281,314
Ancillary programs	3,451,360	4,185,630
Supporting Services:		
Management and general	2,458,264	2,200,981
Fundraising	24,835	30,962
	<hr/>	<hr/>
Total expenses	17,485,645	17,320,212
	<hr/>	<hr/>
Decrease in unrestricted net assets from operations	(1,438,075)	(224,236)
	<hr/>	<hr/>
Other revenue (expense):		
Medicaid / Medicare cost settlements	-	218,471
	<hr/>	<hr/>
Decrease in unrestricted net assets	(1,438,075)	(5,765)
	<hr/>	<hr/>
Net assets, beginning of year	3,568,179	3,573,944
	<hr/>	<hr/>
Net assets, end of year	\$ 2,130,104	\$ 3,568,179
	<hr/>	<hr/>

COMMUNITY HEALTH CENTERS, INC.
Statement of Functional Expenses

Year Ended December 31, 2006

	Program Services			Supporting Services		
	Community Health Services	Farmworker Health Services	Ancillary Programs	Management and General	Fundraising	Total
Salaries and wages	\$ 4,869,025	\$ 148,795	\$ 239,060	\$ 994,671	\$ 10,049	\$ 6,261,600
Employee payroll benefits and taxes	1,489,024	46,510	76,477	440,507	4,450	2,056,968
Total salaries, wages and related expenses	6,358,049	195,305	315,537	1,435,178	14,499	8,318,568
Professional fees and contract service payments	1,316,991	45,002	37,011	455,574	4,602	1,859,180
Supplies	967,601	59,074	1,682	44,131	446	1,072,934
Travel and training	89,110	5,857	3,007	79,038	798	177,810
Insurance	-	3,318	-	24,901	252	28,471
Telephone and communications	145,136	5,429	8,230	39,191	396	198,382
Facility rental and utilities	482,827	18,351	19,762	49,959	505	571,404
Postage and shipping	11,561	62	988	52,885	534	66,030
Printing	41,416	736	1,937	13,757	139	57,985
Other	317,140	13,675	14,167	156,290	1,579	502,851
In-kind and donated services/supplies	1,373,300	1,352	3,046,566	-	-	4,421,218
Total expenses before depreciation, amortization and interest expense	11,103,131	348,161	3,448,887	2,350,904	23,750	17,274,833
Depreciation and amortization	96,245	3,649	2,473	77,904	787	181,058
Interest expense	-	-	-	29,456	298	29,754
	\$ 11,199,376	\$ 351,810	\$ 3,451,360	\$ 2,458,264	\$ 24,835	\$ 17,485,645

See accompanying notes to financial statements.

COMMUNITY HEALTH CENTERS, INC.
Statement of Functional Expenses

Year Ended December 31, 2005

	Program Services			Supporting Services		
	Community Health Services	Farmworker Health Services	Ancillary Programs	Management and General	Fundraising	Total
Salaries and wages	\$ 4,555,260	\$ 103,040	\$ 383,886	\$ 918,242	\$ 9,711	\$ 5,970,139
Employee payroll benefits and taxes	1,446,750	32,725	121,922	292,068	3,084	1,896,549
Total salaries, wages and related expenses	6,002,010	135,765	505,808	1,210,310	12,795	7,866,688
Professional fees and contract service payments	1,566,151	58,154	29,307	537,606	16,667	2,207,885
Supplies	687,618	26,847	3,835	25,457	350	744,107
Travel and training	42,837	6,834	6,419	95,878	-	151,968
Insurance	-	1,755	-	20,902	-	22,657
Telephone and communications	137,546	5,027	8,707	40,432	-	191,712
Facility rental and utilities	399,515	15,684	19,200	48,514	-	482,913
Postage and shipping	9,943	57	2,824	72,638	150	85,612
Printing	6,070	708	1,567	1,989	1,000	11,334
Other	142,911	6,405	6,210	67,184	-	222,710
In-kind and donated services/supplies	1,489,976	18,654	3,588,919	52	-	5,097,601
Total expenses before depreciation, amortization and interest expense	10,484,577	275,890	4,172,796	2,120,962	30,962	17,085,187
Depreciation and amortization	136,748	5,424	12,834	78,729	-	233,735
Interest expense	-	-	-	1,290	-	1,290
	\$ 10,621,325	\$ 281,314	\$ 4,185,630	\$ 2,200,981	\$ 30,962	\$ 17,320,212

See accompanying notes to financial statements.



COMMUNITY HEALTH CENTERS, INC.
Statements of Cash Flows

Years Ended December 31,

	2006	2005
Cash flows from operating activities:		
Decrease in net assets	\$ (1,438,075)	\$ (5,765)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Non-cash donation of building	-	(555,000)
Depreciation and amortization	181,037	233,735
Decrease (increase) in:		
Receivables	315,804	1,491,395
Prepays	16,997	(69)
Increase (decrease) in:		
Checks written in excess of cash in bank	(33,626)	33,626
Accounts payable	(195,862)	(245,643)
Accrued liabilities	96,791	26,498
Net cash provided by (used in) operating activities	(1,056,934)	978,777
Cash flows from investing activities:		
Purchase of property and equipment	(21,405)	(34,690)
Cash flows from financing activities:		
Net increase (decrease) in line of credit	(495,000)	495,000
Payments of capital lease obligations	-	(22,714)
Net cash provided by (used in) financing activities	(495,000)	472,286
Net change in cash and cash equivalents	(1,573,339)	1,416,373
Cash and cash equivalents at beginning of year	2,386,693	970,320
Cash and cash equivalents at end of year	\$ 813,354	\$ 2,386,693
Shown on the Statements of Financial Position as:		
Cash	\$ 478,407	\$ -
Cash and cash equivalents - designated	334,947	2,386,693
Total cash and cash equivalents	\$ 813,354	\$ 2,386,693



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements

December 31, 2006 and 2005

**1. Summary of
Significant
Accounting
Policies**

Organization

Community Health Centers, Inc. ("CHC" or the "Organization") is a Utah not-for-profit corporation governed by a consumer-controlled volunteer board of Governors. The stated purpose is to provide quality patient-centered primary care services to individuals, regardless of their ability to pay.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

CHC reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Concentration of Credit Risk

A large portion of CHC's service fees receivable are from patients who have difficulty paying for services rendered. The management of CHC establishes an allowance for possible losses which, when realized, have been within the range of management expectations.



COMMUNITY HEALTH CENTERS, INC.

Notes to Financial Statements

Continued

1. **Summary of
Significant
Accounting
Policies**
Continued

Concentration of Credit Risk - Continued

CHC maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. CHC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, CHC considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Service Fees Receivable

Service fees receivable are carried at the original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Service fees receivable are written off when deemed uncollectible. Recoveries of service fees receivable previously written off are recorded when received.

Property and Equipment

Purchased property and equipment is recorded at cost. Donated property and equipment is recorded at fair market value at the date of receipt. Depreciation and amortization are computed using the straight-line method over the estimated lives of the assets or lease terms.

Donated Property, Equipment and Supplies

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, CHC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. CHC reclassifies temporarily restricted net assets to unrestricted net assets at that time.



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements
Continued

**1. Summary of
Significant
Accounting
Policies**
Continued

Donated Property, Equipment and Supplies - Continued

Donations of supplies are recorded at estimated fair market value at the time of donation.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by CHC.

Revenue Recognition for Medical Services

Revenue is recognized at the time the medical services are provided.

Patient Revenue

Many of the patients receiving medical services from CHC are billed a sliding-scale fee based upon family size and income. The sliding scale adjustment is set by the CHC board using federal poverty guidelines. In addition, CHC receives fees from various third party programs for qualifying patients. Patient fees are applied in meeting the non-federal share of approved budgets.

Allocation of Expenses

CHC's policy is to allocate various indirect expenses of administrative overhead to program services based on patient encounters.

Income Tax Status

CHC is a qualified charitable organization under Section 501(c)(3) of the Internal Revenue Code and under the State of Utah tax regulations. Therefore, CHC is not subject to federal or state income taxes on income pertaining to its exempt purpose.

Liquidity

CHC incurred a decrease in unrestricted net assets during 2006 of approximately \$1.4 million. In addition, the Organization used net cash of approximately \$1.1 million in operating activities in 2006. The decrease in unrestricted net assets and use of cash were the result of several factors including a decrease in unrestricted support and revenue. Management believes that corrective actions have been taken and procedures implemented which will correct the situation noted above. However, there is no assurance that management's corrective action will achieve the intended results. Any inability to achieve the current business plan could have a material adverse impact on the Organization's financial position, liquidity or results of operations.



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements
Continued

2. Receivables Receivables consist of the following at December 31:

	2006	2005
Service fees receivable	\$ 2,802,727	\$ 2,382,352
Grants and contract receivable	115,791	344,894
	<u>2,918,518</u>	<u>2,727,246</u>
Less: allowance for contractual adjustments and doubtful accounts on service fees receivable	<u>(1,695,121)</u>	<u>(1,188,045)</u>
	<u>\$ 1,223,397</u>	<u>\$ 1,539,201</u>

3. Property and Equipment Property and equipment consist of the following at December 31:

	2006	2005
Office and medical equipment	\$ 1,947,181	\$ 1,928,052
Leasehold improvements	1,042,140	1,039,864
Buildings	465,365	465,365
Land	89,635	89,635
	<u>3,544,321</u>	<u>3,522,916</u>
Less: accumulated depreciation and amortization	<u>(2,705,064)</u>	<u>(2,524,027)</u>
	<u>\$ 839,257</u>	<u>\$ 998,889</u>

4. Line of Credit

The Organization had a line of credit agreement with a bank to borrow a maximum of \$700,000 at an interest rate equal to the prime rate. The line was secured by the Organization's assets and matured on October 5, 2006. The line was not renewed.



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements
Continued

**5. Designation
of
Unrestricted
Net Assets**

CHC's Board of Governors designates a portion of unrestricted net assets and an equal amount of cash to be used as a reserve for future activities and to build a reserve of ninety days of operating working capital. As of December 31, 2006 and 2005, the designated net assets were less than the desired ninety days of operating working capital by approximately \$2,996,000 and \$669,000 respectively.

During 2006, with approval from the Board, CHC began to use this reserve to fund operations.

**6. In-Kind
Services
and Support**

The time contributed by volunteer medical personnel, rent contributed for facilities, donated pharmaceuticals, and donated vaccines are recognized as part of contributions on the accompanying statements of activities.

The following table shows the in-kind contributions received for the years ended December 31:

	<u>2006</u>	<u>2005</u>
Donated services	\$ 2,443,902	\$ 2,864,926
Donated pharmaceuticals	1,300,897	1,697,824
Donated vaccines for children	676,419	474,798
Donated rent	-	60,000
Donated supplies	-	53
	<u>\$ 4,421,218</u>	<u>\$ 5,097,601</u>

**7. Medicaid /
Medicare
Cost
Settlements**

During the years ended December 31, 2006 and 2005, CHC recognized revenue of \$0 and \$215,046, respectively, from Medicaid cost settlements from 1999 through 2004. In addition, CHC recognized revenue for Medicare cost settlements of \$0 and \$3,425 for 2006 and 2005, respectively. This revenue has been included in the other revenue/expense section of the statements of activities.



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements
Continued

8. Significant Funding Source During each of the years ended December 31, 2006 and 2005, approximately 20% of CHC's operating revenues were from one funding source. A second source provided approximately 8% of CHC's operating revenues in each year. Future funds available from these funding sources are subject to potential reductions due to changes in governmental budget allocations and other factors.

9. Retirement Plan CHC has a defined contribution retirement plan which covers employees meeting the Plan's eligibility requirements. For the years ended December 31, 2006 and 2005, CHC contributed approximately \$507,000 and \$523,000 to the Plan, respectively.

10. Operating Leases CHC leases medical clinics and certain equipment under various operating leases. Future minimum rental payments under noncancelable operating leases as of December 31, 2006 are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 392,112
2008	397,209
2009	408,827
2010	424,552
2011	396,058
Thereafter	1,232,948
	<u>\$ 3,251,706</u>

Rent expense related to these noncancellable operating leases was approximately \$279,000 and \$209,000 for the years ended December 31, 2006, and 2005 respectively.



COMMUNITY HEALTH CENTERS, INC.**Notes to Financial Statements***Continued*

**11. Commitments
and
Contingencies*****Government Contracts***

CHC has contracts with government agencies to provide funding for health care services. The terms of these contracts may require adjustments to be made to revenues received based on cost settlements and other events. The amount of these adjustments is not currently determinable. However, these adjustments may have a material effect on the financial statements in the period in which they are recognized.

Litigation

CHC has been named in lawsuits and/or claims filed against it. The amount, if any, to be paid by CHC in connection with these claims is not estimable and the likelihood of an unfavorable outcome is not currently determinable. Management believes damages resulting from these claims will not have a material adverse effect on CHC's financial position.

**12. Supplemental
Disclosure of
Cash Flow
Information**

Actual amounts paid for interest and income taxes for the years ended December 31, are as follows:

	<u>2006</u>	<u>2005</u>
Interest paid	\$ 21,972	\$ 1,290
Income taxes paid	\$ -	\$ -

During the year ended December 31, 2005, CHC received a donation of land and a building. The organization recorded the donation at its fair market value of \$555,000 at the time of donation and as unrestricted revenue of the same amount.



COMMUNITY HEALTH CENTERS, INC.
Schedule of Expenditures of Federal Awards

Year Ended December 31, 2006

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services:		
Community Health Centers and Migrant Health Centers	93.224*	\$ 3,229,483
Health Care and Other Facilities	93.887	130,171
Passed through the State of Utah Department of Health:		
Prenatal Care Services	93.994	25,000
Cooperative Agreements for State-based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	9,322
Cooperative Agreements For State-Based Diabetes Control Programs And Evaluation Of Surveillance Systems	93.988	4,000
Passed through the University of Utah:		
Grants for Graduate Training in Family Medicine (Family Medicine Residency)	93.379	56,690
Total U.S. Department of Health and Human Services		<u>3,454,666</u>
U.S. Department of Housing and Urban Development:		
Passed through Salt Lake County Municipalities:		
Community Development Block Grant	14.218	33,090
Total U.S. Department of Housing and Urban Development		<u>33,090</u>
Total federal expenditures		<u>\$ 3,487,756</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Health Centers, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - In-kind Federal Assistance

During the year ended December 31, 2006, CHC received \$676,419 in donated vaccines through the Utah Department of Health in connection with the Vaccinations For Children program, Federal CFDA Number 93.268* Immunization Grants. This program was tested as a major program in accordance with OMB Circular A-133.

* Denotes a major program



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**To the Board of Governors of
Community Health Centers, Inc.**

We have audited the financial statements of Community Health Centers, Inc. (the Organization) as of and for the year ended December 31, 2006, and have issued our report thereon dated April 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Community Health Centers, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we have reported to the management of Community Health Centers, Inc. in a separate letter dated April 30, 2007.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Governors, management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by any one other than these specified parties.

Tanner LC

April 30, 2007



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**Board of Governors
Community Health Centers, Inc.**

Compliance

We have audited the compliance of Community Health Centers, Inc. (the Organization) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to its major federal programs for the year ended December 31, 2006. The Organization's major federal programs are identified in the summary of Auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, Community Health Centers, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 06-1.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be control deficiencies. However, we noted certain matters involving the internal control over compliance and its operation that we consider to be significant deficiencies. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a misstatement in relation to a major federal program that is more than inconsequential will not be prevented or detected by the Organization's internal control. The significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 06-1 and 06-2.

A material weakness is a significant deficiency in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies referred to above is a material weakness.

This report is intended solely for the information and use of the Board of Governors, management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Tanner LC

April 30, 2007



COMMUNITY HEALTH CENTERS, INC.
Schedule of Findings and Questioned Costs

Year Ended December 31, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of Auditors' report issued: Unqualified.

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(es) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(es) identified that are not considered to be material weaknesses? ☒ yes ☐ none reported

Type of Auditors' report issued on compliance for major programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☒ yes ☐ no

Identification of major programs:

CFDA Number Name of Federal Program

93.224 Community Health Centers
93.268 Immunization Grants—Vaccinations For Children Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no



COMMUNITY HEALTH CENTERS, INC.
Schedule of Findings and Questioned Costs
Continued

Section II - Financial Statement Findings

No findings were noted related to our audit of the basic financial statements.

Section III - Federal Award Findings and Questioned Costs

06-1 Controls Over the Vaccinations For Children Program

Criteria or specific requirement

Effective control and accountability must be maintained for all vaccine.

Condition

It was noted that Community Health Centers, Inc. was not able to fully account for all vaccine received under the Immunization Grants-Vaccinations For Children Program (VFC).

Effect

The unaccounted for difference between the physical inventory usage and the Medical Manager practice management system was \$17,340 or 2.6% of the in-kind federal assistance received. However, per representation of Organization management, Community Health Centers, Inc. did provide \$36,121 of vaccine to VFC eligible children during 2006 that was not reimbursed by vaccinations from the VFC program.

Cause

Likely causes of the differences appear to be spoilage and miscoding of information in the Medical Manager system.

Recommendation

We recognize that the Organization made improvements in monitoring and accounting for vaccine usage during the current year. However, we recommend that management continue to refine the method used to monitor and account for the usage of Vaccinations for Children vaccines, and compare the actual usage to information recorded in the Medical Manager practice management system on a regular basis to ensure that the vaccines are being properly administered.

Community Health Centers, Inc.'s Response

CHC agrees there was a 2.6% variance totaling \$17,340 between the vaccine received by CHC from the UDOH (\$676,419) and the vaccine "used" by the CHC practice management system during calendar year 2006. This variance is significantly less than the 4.5% variance experienced during calendar year 2005. CHC will continue in its efforts to refine the internal processes used in accounting for the usage of vaccines received under the VFC program.



COMMUNITY HEALTH CENTERS, INC.
Schedule of Findings and Questioned Costs
Continued

06-2 Controls Over the Schedule of Federal Expenditures

Criteria or specific requirement

All expenditures of federal awards must be reported on the Schedule of Expenditures of Federal Awards.

Condition

We noted that the initial Schedule of Expenditures of Federal Awards prepared by Community Health Centers, Inc. did not include one federal award (CFDA # 14.218). Expenditures on this award totaled \$33,090. This award has been added to the final schedule included on page 15.

Recommendation

We recommend that Community Health Centers, Inc. implement policies to ensure that all government contracts are identified and carefully reviewed to determine the source of the funding, and to ensure that all federal awards meeting the criteria of OMB circular A-133 are properly included on the Schedule of Expenditures of Federal Awards.

Community Health Centers, Inc.'s Response

We agree and will implement procedures to ensure that all federal awards are identified and reviewed. Those that meet the criteria will be included in the Schedule of Expenditures of Federal Awards.



COMMUNITY HEALTH CENTERS, INC.
Schedule of Prior Audit Findings

Year Ended December 31, 2006

Finding From Audit for the Year Ended December 31, 2005:

05-1 Controls Over the VFC Program

Criteria or specific requirement

Effective control and accountability must be maintained for all vaccine.

Condition

It was noted that Community Health Centers, Inc. was not able to fully account for all vaccine received under the Immunization Grants - Vaccinations For Children Program (VFC).

Effect

The unaccounted for difference between the physical inventory usage and the Medical Manager practice management system was \$21,543 or 4.5% of the in-kind federal assistance received. However, per representation of Organization management, Community Health Centers, Inc. did provide \$19,140 of flu vaccine to VFC eligible children during 2005 that was not reimbursed by vaccinations from the VFC program.

Cause

The cause of the difference appears to be partially from spoilage and partially from miscoding of information in the Medical Manager system.

Recommendation

We recognize that the Organization made improvements in monitoring and accounting for vaccine usage during the current year. However, we recommend that management continue to refine the method used to monitor and account for the usage of Vaccinations for Children vaccines, and compare the actual usage to information recorded in the Medical Manager practice management system on a daily basis to ensure that the vaccines are being properly administered.

Status

Although CHC has taken several steps to improve controls over the inventory tracking of vaccinations associated with the VFC program, there continues to be differences between physical inventory and CHC's Medical Manager practice management system. See repeat comment 06-1 on page 22.